

STATE FINANCE COMMITTEE
OLYMPIA, WASHINGTON

January 22, 2003

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Tom Morrill, Office of the Attorney General
Jim Bemis, Montague DeRose & Associates
Nancy Adams, Office of the State Treasurer
Dean Torkelson, Seattle-Northwest Securities
Kristi Wolgamot, Office of the State Treasurer
Hugh Spitzer, Foster Pepper & Shefelman
Beth Fernando, Montague DeRose & Associates
Vicki Cox, Office of the State Treasurer
Rob Shelley, Seattle-Northwest Securities
Svein Braseth, Office of the State Treasurer
Christine Pihl, Seattle-Northwest Securities
Chia Yang, Montague DeRose & Associates
Rodney Wendt, Orrick, Herrington & Sutcliffe, LLP
Susan Musselman, Susan D. Musselman, Inc.
Amy Arnis, Department of Transportation
Rich Ybarra, Department of Transportation
Carmen M. Butler, Rep. Lantz's office
Representative Patricia Lantz
Laura Saunders, Highline Community College
Stefan Alano, Highline Community College
Jonathan Brown, Highline Community College
Bill Starkey, Seattle-Northwest Securities
Sue Melvin, Office of the State Treasurer
Pam Johnson, Office of the State Treasurer
Mike Roberts, Office of Financial Management
Ivan Gorne, Highline Community College
Suzanne Coit, Office of the State Treasurer

Chairman Murphy called the meeting to order.

Lieutenant Governor Owen moved the minutes for the November 21, 2002 meeting be approved. Treasurer Murphy seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 970 accepts the winning bid for the purchase of State of Washington Various Purpose General Obligation Bonds, Series 2003D in the aggregate principal amount of \$190,000,000; fixing the interest rates; and amending resolution 967. He said that four bids were received and accepted electronically through Parity at 8:00 a.m. Pacific Time. Salomon Smith Barney, Inc. submitted a true interest cost (TIC) of 4.6202084%; Morgan Stanley & Co., Incorporated submitted a TIC of 4.6214559%; Merrill Lynch & Co. submitted a TIC of 4.6436523%; and UBS PaineWebber Inc. submitted a TIC of 4.6439589%, with the apparent low bidder being Salomon Smith Barney, Inc.

Mr. Martin presented proposed Resolution 970 to the committee.

Resolution 970 awards the sale of \$190,000,000 State of Washington Various Purpose General Obligation Bonds, Series 2003D, authorized by Chapter 380, Laws of 1999, Reg. Sess., Chapter 9, Law of 2001, 2nd Sp. Sess. and Chapter 39.42 RCW, and amends Resolution No. 967.

Lt. Governor Owen moved to adopt Resolution 970. Treasurer Murphy seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 971 accepts the winning bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E in the aggregate principal amount of \$27,530,000; fixing the interest rates; and amending resolution 968. He said that three bids were received and accepted electronically through Parity at 8:00 a.m. Pacific Time. Salomon Smith Barney, Inc. submitted a TIC of 4.6356651%; Merrill Lynch & Co. submitted a TIC of 4.6716884%; and UBS PaineWebber Inc. submitted a TIC of 4.7051649%, with the apparent low bidder being Salomon Smith Barney, Inc.

Mr. Bemis said today the market was strong and favorable to sell bonds. He said San Francisco and Port of New York sold bonds also, but those were not in competition with these bonds. Lt. Governor Owen asked if this state's financial situation affected the bond sale. Mr. Bemis said the economic downturn was not unique to the State of Washington and the market takes it in stride. Lt. Governor Owen asked how often the rating agencies rate this state. Mr. Bemis said the rating agencies rate each bond sale. Mr. Martin explained that the Office of the State Treasurer does a yearly due diligence with each rating agency when they come to Washington to meet with the State Treasurer and staff, the Director of the Forecast Council, the Deputy Director of the Office of Financial Management, and the Assistant Secretary of the Department of Transportation to review the state's economic policies and current issues. Mr. Martin said the rating agencies will request a conference call at least once a year to get updated information on the issues. Treasurer Murphy said 48 out of the 50 states have budget constraints not unlike our own. Mr. Torkelson said the state is on negative watch but the rating agencies are waiting to see what the Legislature does this session to balance the budget and will not base their rating on the perception of impact.

Mr. Martin presented proposed Resolution 971 to the committee.

Resolution 971 awards the sale of \$27,530,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003E, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), Chapter 7, Laws of 1967, Ex. Sess., as amended (RCW 47.10.761 and 762) and Chapter 39.42 RCW, and amends Resolution No. 968.

Lt. Governor Owen moved to adopt Resolution 971. Treasurer Murphy seconded the motion and the resolution was adopted.

Treasurer Murphy introduced Representative Patricia Lantz and her Assistant, Carmen Butler. He said they were present to witness the bidding for the sale of the State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F. Mr. Martin said proposed Resolution No. 972 accepts a winning bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F in the aggregate principal amount of \$75,001,618.40 in accordance with Resolution No. 968. He said the Series 2003F Bonds are tax-exempt compound interest bonds, and, as such, the interest on the Series 2003F Bonds will be paid only at maturity. Mr. Martin said three bids were received and accepted electronically through Parity at 9:00 a.m. Pacific Time. Morgan, Stanley & Co. Incorporated submitted a TIC of 5.237513%; Salomon Smith Barney, Inc. submitted a TIC of 5.246547% and UBS PaineWebber Inc. submitted a TIC of 5.275487%, with the apparent low bidder being Morgan, Stanley & Co. Incorporated. Mr. Torkelson said the structure of these bonds were longer to fit the projected revenue and since they are zero coupon bonds, the market prices are more volatile than the other bonds.

Mr. Martin presented proposed Resolution 972 to the committee.

Resolution 972 awards the sale of \$75,000,000, more or less, State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2003F, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843), and Chapter 39.42 RCW.

Lt. Governor Owen moved to adopt Resolution 972. Treasurer Murphy seconded the motion and the resolution was adopted.

Ms. Wolgamot introduced four people attending the meeting from Highline Community College in support of proposed Resolution No. 973. They were: Laura Saunders, Vice President of Administrative Services; Ivan Gorne, Vice President of Student Services; Jonathan Brown, Associate Dean for Student Programs; and Stefan Alano, President of Associated Students of Highline Community College. Mr. Alano said they were happy to attend the meeting and show their appreciation for securing finances to replace their old student union building with a larger structure, enabling more students to be involved in activities. Ms. Wolgamot said proposed Resolution No. 973 approves the forms of financing documents and authorizes the issuance and sale of an amount up to \$15,006,000 of state of Washington Certificates of Participation plus financing costs and required reserves for the State Board for Community and Technical Colleges on behalf of Highline Community College, for the replacement of the student union building. Proceeds of the sale will be used to demolish the existing student union building and replace it

with a new 45,300 square foot building. The State Board for Community and Technical Colleges, on behalf of Highline Community College, received authorization pursuant to Laws of 2001, 2nd Sp. Sess., Chapter, 8, Section 907(6) (c) to enter into a financing contract in the 2001-2003 biennium to replace the student union building.

Mr. Martin presented proposed Resolution 973 to the committee.

Resolution 973 approves a State Agency Financing Lease and related documents to be entered into by the State Board for Community and Technical Colleges on behalf of Highline Community College, for construction of a 45,300 square foot Student Union Building on the Highline Community College main campus in Des Moines, Washington, as authorized by the Laws of 2001, 2nd Sp. Sess., Chapter 8, Section 907(6)(c), and the issuance and sale of up to \$15,006,000, plus financing expenses and required reserves, of State of Washington Certificates of Participation, State Board for Community and Technical Colleges, Series 2003 (Highline Community College), pursuant to Chapter 39.94 RCW.

Lt. Governor Owen moved to adopt Resolution 973. Treasurer Murphy seconded the motion and the resolution was adopted.

Ms. Wolgamot said proposed Resolution No. 974 approves the forms and authorizes the execution and delivery of a Second Amendment to the Financing Lease, a Second Supplemental Trust Agreement and related documentation, authorizes the prepayment of certain Certificates of Participation (State Office Building Project) Series 1991, and authorizes the execution, delivery and sale of up to \$30,000,000, more or less, plus financing costs and reserves, State of Washington Refunding Certificates of Participation (State Office Building Project) Series 2003, pursuant to Section 39.94 RCW. Proceeds of the sale will be used to refund, in all or in part, the outstanding certificates of the 1991 issue as authorized by Chapters 39.53 and 39.94 RCW. Treasurer Murphy said the state first issued \$78.8 million COPs to finance construction of the Department of Ecology (DOE) building. The true interest cost was approximately 7 percent. A partial refinance was issued in 2001 which resulted in an annual savings of \$437,000. He said the current interest rate environment presents substantial interest rate savings for the refunding of the remaining 1991 certificates (2013–2016). Subject to market conditions, the savings of such a refunding will reduce the DOE's annual debt service outlays by approximately \$135,000, which means a savings of \$6 to \$7 million to DOE.

Mr. Martin presented proposed Resolution 974 to the committee.

Resolution 974 approves the forms and authorizes the execution and delivery of a Second Amendment to Financing Lease, a Second Supplemental Trust Agreement and related documentation, authorizes the prepayment of certain Certificates of Participation (State Office Building Project) Series 1991, and authorizes the execution, delivery and sale of up to \$30,000,000, more or less, plus financing costs and reserves, State of Washington Refunding Certificates of Participation (State Office Building Project) Series 2003, pursuant to Section 39.94 RCW.

Lt. Governor Owen moved to adopt Resolution 974. Treasurer Murphy seconded the motion and the resolution was adopted.

There being nothing further to come before the committee, the meeting was adjourned at 10:22 a.m.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Gary Locke, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary